



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

January 9, 2009

Hermelinda Sapien
President/Chief Executive Officer
Center for Employment Training
701 Vine Street
San Jose, CA 95110

Dear Ms. Sapien:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET04-0431 for the period September 8, 2003, through September 7, 2005.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditors during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-5758.

Sincerely,

Original signed by:

Stephen Runkle
Audit Manager

Enclosures

cc: Mohammad Aryanpour, Chief Financial Officer
Erica Huey, Internal Auditor

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CENTER FOR EMPLOYMENT TRAINING

Agreement No. ET04-0431

Draft Audit Report

For The Period

September 8, 2003 through September 7, 2005

Report Published January 9, 2009

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AUDITOR'S REPORT

Summary

We performed an audit of Center for Employment Training's compliance with Agreement No. ET04-0431, for the period September 8, 2003, through September 7, 2005. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period October 22, 2007, through November 13, 2007.

The Employment Training Panel (ETP) reimbursed the Contractor a total of \$537,172.50. Our audit supported \$514,422 is allowable. The balance of \$22,750.50 is disallowed and must be returned to ETP. The disallowed costs resulted from two trainees who did not complete the required training hours, one trainee who did not meet full-time employment requirements, and one trainee who did not meet the minimum wage requirement. In addition, we noted \$45,861 in questioned costs for noncompliance with sufficient completion of required training hours for eight trainees.

AUDITOR'S REPORT (continued)

Background

This is the tenth Agreement between ETP and Center for Employment Training (CET). Established since 1967, CET is a private non-profit corporation based in San Jose, California, with 18 training centers in California. CET provides training and placement to persons with multiple barriers to employment such as long-term welfare recipients, dislocated workers, farm workers, high school dropouts, workers with limited English language proficiency, and teen parents. All CET training courses are accredited by The Western Association of Schools and Colleges (WASC).

In this Agreement, CET proposed to provide Commercial Skills training for unemployed workers with multiple barriers to employment in computerized accounting, automotive maintenance, welding, medical administrative assistant, and computerized numerical controls (CNC). Upon completion of training, trainees were to be placed in the following occupations: Account Clerk, Bookkeeper, Control Clerk, Payroll Clerk, Arc Welder, Combination Welder, Medical Clerk, Admitting Clerk, Medical Voucher Clerk, CNC Machine Set-Up, CNC Operator, Medical Assistant, Optometric Assistant, Electrocardiogram Technician Assistant, and Podiatric Assistant. Additionally, CET was approved to receive 12 percent in support costs to cover the costs of its new hire recruitment activities.

This Agreement allowed CET to receive a maximum reimbursement of \$918,319 for training and placing 129 new-hire trainees. During the Agreement term, the Contractor placed 83 new-hire trainees and was reimbursed \$537,172.50 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Center for Employment Training (CET). Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that CET complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Trainees received the minimum training hours specified in the Agreement.

AUDITOR'S REPORT (continued)

- Trainees were employed continuously full-time with a participating employer for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$514,422 of the \$537,172.50 paid to the Contractor under this Agreement is allowable. The balance of \$22,750.50 is disallowed and must be returned to ETP.

Views of Responsible Officials The audit findings were discussed with Mohammad Aryanpour, Chief Financial Officer, and Erica Huey, Internal Auditor, at an exit conference held on October 26, 2007 and via e-mail on December 8, 2007. A draft audit report was issued to the Contractor on December 8, 2008. The Contractor responded in a letter dated December 23, 2008 stating they had no comments regarding the draft report.

The issuance of your final audit report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning December 20, 2007, through the issue date of this final audit report. The interest waiver (adjustment) was \$2,091.61, which was deducted from the total accrued interest.

Audit Appeal Rights If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).

AUDITOR'S REPORT (continued)

Records

Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Stephen Runkle
Audit Manager

Fieldwork Completion Date: November 13, 2007

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET04-0431 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

CENTER FOR EMPLOYMENT TRAINING

AGREEMENT NO. ET04-0431

FOR THE PERIOD

SEPTEMBER 8, 2003 THROUGH SEPTEMBER 7, 2005

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$537,172.50</u>	
Costs Questioned and Disallowed:		
	<u>Questioned Costs</u>	<u>Disallowed Costs</u>
Training Hour Requirements Not Met	\$ 10,861	\$ 10,861
		Finding No. 1
Full-Time Employment Requirements Not Met	6,928	6,928
		Finding No. 2
Minimum Wage Requirement Not Met	4,961.50	4,961.50
		Finding No. 3
Insufficient Class/Lab Training Hours	<u>45,861</u>	<u>-</u>
		Finding No. 4
Totals	<u>\$ 68,611.50</u>	<u>\$22,750.50</u>
Total Costs Disallowed	<u>\$22,750.50</u>	
Training Costs Allowed	<u>\$ 514,422</u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Center for Employment Training (CET) training documentation did not support the minimum training hours required for two trainees. Training Hour Requirements Not Met As a result, we disallowed \$10,861 in class/lab training costs claimed for the two Job No. 2 trainees [Trainee No. 5: (900 training hours x \$8.11 per hour) x 1.0959 (12% support costs factor) – (\$4,050 Pell Grant x 75%) = \$4,962] + Trainee No. 8: (900 training hours x \$8.11 per hour) x 1.0959 (12% support costs factor) – (\$2,800 Pell Grant x 75%) = \$5,899].

Title 22 California Code of Regulations (CCR), Section 4442(b) requires Contractors to maintain and make available records that clearly document all aspects of training. Classroom/laboratory training records must include the training date(s) and hours attended, training type, and the trainer and trainee's signatures.

Paragraph 2(b) of the Agreement between CET and ETP states that "Each trainee should complete 100% of the required class/lab and videoconference training hours. The Panel will not reimburse the Contractor for a trainee who does not complete a minimum 80% of the required hours..."

Paragraph 9(a) of the Agreement between CET and ETP states, in part, that for trainees "...who receive a Pell Grant award, CET will apply seventy-five percent (75%) of the amount of the Pell Grant award to reduce the training costs to ETP..."

CET training records did not support the minimum required training hours for two trainees due to either missing training records or incomplete documentation of required training hours. Training hours attended by each trainee were less than 80 percent of the class/lab training hours required. The table below shows required training hours, audited training hours per training records, and the percentage of required training hours completed by trainee.

Trainee No.	Job No.	Required Training Hours	Audited Training Hours	Percentage of Training Hours Attended*
5	2	900	708	79%
8	2	900	690	77%
Legend: * = Percentages were rounded to whole numbers.				

Recommendation CET must return \$10,861 to ETP. In the future, the Contractor should ensure that trainees attend the training hours required by the Agreement prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 2 – CET received reimbursement for one Job No. 3 trainee who was Full-Time Employment Requirements Not Met not employed full-time during their post-training retention period per Agreement requirements. As a result, we disallowed \$6,928 in training costs claimed for this trainee. Noncompliance with full-time employment requirements was previously disclosed in our audit of ETP Agreement No. ET02-0223.

Exhibit A, paragraph VII. A.1 of the Agreement states, “Each trainee must be employed full time, at least 35 hours per week with a single participating employer for a period of at least ninety (90) consecutive days immediately following the completion of training.”

CET reported that Trainee No. 6 completed a post-training retention period from May 10, 2005, through August 8, 2005, at a wage rate of \$12.50 per hour. The employer of Trainee No. 6 confirmed the CET reported wage rate, but identified the trainee worked less than 32 hours per week during the post-training retention period. Based on the hourly wage rate, Employment Development Department (EDD) base wage information supports this trainee worked an average of 30.5 hours per week during the retention period. Furthermore, base wages support Trainee No. 6 was not employed full-time during any subsequent 90-day period up to the Agreement end date.

Recommendation CET must return \$6,928 to ETP. In the future, CET should ensure that each trainee meets full-time employment requirements during their post-training retention period before claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – Employment information shows one Job No. 5 trainee did not meet the minimum wage requirement specified in the Agreement. Therefore, we disallowed \$4,961.50 in training costs claimed for this trainee.
Minimum Wage Requirement Not Met

Exhibit A, paragraph VII. A.1 of the Agreement between CET and ETP states, “Each trainee must be employed full time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

The Agreement required Job No. 5 trainees meet the minimum wage requirement of \$8.98 in Monterey County. The Agreement did not allow for the addition of health benefits to meet minimum wage requirements.

CET reported Trainee No. 9 received an hourly wage of \$9.51 following the post-training retention period. However, the employer [Target Corporation] of Trainee No. 9 reported a wage of \$8.10 per hour. As a result, Trainee No. 9 did not meet the minimum wage requirement specified in the Agreement.

Recommendation CET must return \$4,961.50 to ETP. In the future, the Contractor should ensure trainees meet the minimum wage rate requirements prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 4 – CET training records did not support required training hours for 8 Insufficient trainees placed in Job Nos. 1, 2, 3, and 4. As a result, CET did not Class/Lab Training comply with Agreement requirements to ensure trainees receive Hours 100 percent of planned training. Therefore, we questioned \$45,861 in training costs claimed [(3 Job No. 1 trainees x \$6,246) + (1 Job No. 2 trainee x \$7,999) + (1 Job No. 2 trainee x \$6,574) + (1 Job No. 3 trainee x \$6,928) + (1 Job No. 4 trainee x \$5,622)]. Since Trainee No. 6 was previously disallowed in Finding No. 2, no additional training costs would apply to this finding. Noncompliance with 100 percent completion of planned training was previously disclosed in our audit of ETP Agreement No. ET02-0223.

Paragraph 2(b) of the Agreement between CET and ETP states that “Each trainee should complete 100 percent of the class/lab and videoconference training hours. The Panel will not reimburse the Contractor for a trainee who does not complete a minimum 80 percent of the required class/lab and videoconference training...”

The table below shows required training hours, audited training hours per training records, and the percentage of required training hours completed by trainee.

Trainee No.	Job No.	Required Training Hours	Audited Training Hours	Percentage of Training Hours Attended*
1	4	500	414	83%
2	1	605	523	86%
3	3	720	637	88%
4	2	900	792	88%
6	3	720	630	88%
7	1	605	521.5	86%
10	1	605	504	83%
11	2	900	716	80%
Legend: * = Percentages were rounded to whole numbers.				

Recommendation In the future, CET should ensure each trainee completes 100 percent of the required training hours. Documentation supporting less than 100 percent of required hours may result in repayment of unearned funds plus applicable interest to ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006